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Is There A Role for the United States in Soviet Efforts to
Expand Food Production?

Summary

Prospects for substantial increases in US sales of agricultural and food processing machinery and equipment (M & E) and agrochemicals to the USSR are dim. The United States can offer very little in agricultural and food processing M & E, technology, or agrochemicals that cannot be purchased from other Western suppliers, often on more favorable terms. The past experience of US firms' providing managerial and technical services to agricultural enterprises in the USSR, although reportedly satisfactory, has not led to further business. The USSR's growing insistence on countertrade (that is, "we buy from you, you must buy from us") also reduces possibilities for increasing US sales to the USSR; few Soviet products can find markets in the United States. Finally, the recent Soviet moves to encourage joint ventures are not likely to result in much trade activity for US or other Western firms in the near term, because of the conflicting goals of Soviet officials and Western businessmen. [redacted]

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General Secretary Mikhail Gorbachev inherited an economy with costly, inefficient agricultural and food processing sectors. His frequently reiterated comments about the need to solve the food problem--a common theme in Brezhnev's later speeches as well--seem to point to a need for substantial

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increases in imports of Western agricultural and food processing M & E, technology, and agrochemicals. Nonetheless, evidence from trade statistics suggests there has been no increase in the priority accorded such imports over the past decade--nor has there been a shift away from East European suppliers in favor of Western suppliers. The United States has accounted for only a minor share of the Western sales. [REDACTED]

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Background

Since the early 1980s, high-level Soviet officials have been stressing the need to import Western agricultural and food processing equipment, technology, and agrochemicals as part of the effort to reduce the chronic losses that plague Soviet agriculture and various elements of the food production chain. In conversations with US Embassy and senior Washington officials, as well as with US businessmen (notably in forums such as the US-USSR Trade and Economic Council), Soviet officials continue to argue their desire to expand imports of both equipment and technology from the United States for these important areas. [REDACTED] 25X1

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However, actual trade transactions suggest that the relative priority of these imports has not changed. The share of the total import bill spent on resources to support farm production--primarily agricultural machinery and agrochemicals--was roughly the same during 1981-85 as during 1976-80. The share of food-processing machinery and equipment increased slightly, from just under 1 percent of total imports during 1976-80 to just over 1 percent during 1981-85. Moreover, throughout the entire decade some 90 percent of the agricultural machinery and 80 percent of the food processing equipment imported by the USSR came from East European suppliers.

Clearly, the rapid and substantial increase in sales that Western businessmen expected has not materialized. []

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The role of the United States in supplying the USSR with either agricultural or food processing M & E has been minimal. Indeed, according to Soviet statistics, during the 1981-85 period the US share of Soviet food processing M & E imports dropped to under 1 percent of total imports in that category from nearly 3 percent during 1976-80. The annual Soviet statistical abstract does not report agricultural M & E in sufficient detail to reveal the US role, but partner-country statistics indicate that, during 1981-85, the United States supplied on average about 4 percent of the USSR's agricultural M & E imports from the West. []

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Moscow ordered an estimated \$20 million of agriculture-related M & E from the United States during 1983-85. All agriculture-related M & E, however, accounted for only 1.8 percent of total Soviet orders for all types of M & E. The share of orders going to US firms picked up in 1986; out of a total \$37 million placed, \$28 million was placed with US firms. []

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The United States, however, did supply a substantial share of the USSR's fertilizer and pesticide imports. Interestingly, Soviet imports of fertilizer from the United States increased steadily during the early 1980s. Although total imports of pesticides more than doubled during those years, imports of US pesticides (which accounted for over 15 percent of total Soviet pesticide imports from Western suppliers in 1983) dropped to

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nearly zero in 1985. (The role of US firms is understated somewhat because sales by US subsidiary companies in countries such as Belgium appear in Soviet statistics as imports from those countries.) [REDACTED]

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Over the past few years US firms, despite many proposals and lengthy discussions with Soviet officials, have not been able to conclude agreements for services including US managerial and technical expertise.* This probably reflects, in part, more general problems affecting Soviet trade with the West: (1) typical Soviet reluctance to make difficult decisions; (2) reduced availability of hard currency resulting from lower oil prices; and (3) the Gosagroprom (State Agro-Industrial Committee) and Ministry of Foreign Trade reorganizations, which are still not complete. Another factor hindering agreements with US firms --not only in this area but across the entire trade spectrum--is the increasingly strident demand of Soviet officials for countertrade to reduce the enormous balance-of-trade deficit the USSR suffers vis-a-vis the United States. This deficit predisposes Soviet officials to work with other Western countries which are often more willing to import Soviet goods and to strike countertrade deals. [REDACTED]

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During the 1970s, a few US firms provided managerial and technical expertise to Soviet agriculture. Among the projects were two soybean-growing experimental farms, one tomato-growing and processing set-up, and a few livestock feed lots. Although Soviet officials claimed to be satisfied with results of these operations, no company was asked to repeat or expand its activity. [REDACTED]

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The USSR has signed major agreements with several non-US Western firms in recent years.

- In 1984 the USSR and the British firm ICI began a three-year experiment aimed at increasing wheat yields using minimal cultivation of soil, British pesticides, and Soviet seed and fertilizer on 2,000 hectares of land in Moscow Oblast. The goal is to increase yields to 10 tons per hectare, from the 1985 level of 2.5 tons per hectare. No results have been published to date.
- Also in 1984 the USSR signed a cooperation agreement with Shell International for development of a new pyrethroid insecticide. The pyrethroid is to be field tested in Azerbaijan, the RSFSR, and the Ukraine on a number of crops including cotton, fruit, and vegetables. Again, no results have been published to date.
- Several Swedish firms are said to be cooperating in an agricultural project at Tosna, near Leningrad. The project is aimed at producing, processing, and distributing dairy products. The creation of Gosagroprom, in late 1985 and the accompanying disarray, as well as problems with financing, reportedly are hindering development of this project.
- The most recently announced contract was that signed by Interagra, a French firm, to provide turnkey plants for processing "grain, corn, and vegetable oil" and for setting up various other enterprises such as "modern chicken-producing farms." Interagra claims the contract is worth \$985 million.



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Farm Production and Food Industry Output Up

Even without a major increase in the priority for imports of agricultural M & E or foreign technology, Soviet farm production appears to have turned around during the first two years of the Gorbachev regime, reaching a new high after a decline in 1984 and 1985. The improved performance is due to continued growth in the livestock sector, combined with increased production of several major crops, including grain. General Secretary Gorbachev can claim at least a partial success for his policies to increase agricultural production. To improve animal productivity--meat per animal and milk per cow--Gorbachev has promoted more aggressive implementation of initiatives developed in the early 1980s to emphasize the use of roughages and protein-rich feedstuffs in animal diets, provide the resources--including additional fertilizer--for increased production of these components, and enhance feed quality by improving facilities for processing and storing feeds. [REDACTED]

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Another key initiative has been the "intensive technology" program in grain production. Intensive technology, as defined by the Soviets includes many farm practices routinely performed in the West--using high-yield varieties, planting where possible after fallow, implementing efficient transportation routes and schedules, and the more extensive use of agro-chemicals including fertilizers and pesticides. We estimate that this program--which encompassed about 29 million hectares in 1986 and is scheduled to reach 50 million hectares in 1990--added at least 5 million tons to last year's grain production. [REDACTED]

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In 1986 the output of the food industry, excluding alcohol, grew by a healthy 6.5 percent, partly because of improved agricultural performance. Some expansion of processing capacity also enabled the industry to make better use of available supplies. Although the Soviet press is not forthcoming on the role of imported food processing M & E, such imports were planned to account for one-fifth of the total investment in the food industry during 1981-85. Combined with stepped up domestic production of food processing M & E, these imports undoubtedly helped improve productivity of this long neglected industry as they were put into use. [] half of the food processing equipment produced in the USSR during the late 1970s was of pre-World-War-II design. []

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Potential Areas for US Sales

Although the United States has a remarkably productive and efficient food production, processing, and distribution system, there is little that is unique but much that is excellent, particularly agrochemicals. For best results with the expanding intensive technology effort, Moscow will need to import additional pesticides. In general, Soviet officials feel it is more efficient to purchase certain pesticides from the West than to import the manufacturing facilities and allocate the major investment needed for production of intermediate materials which, in some cases, could only be used to produce a particular pesticide. []

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Attempts by US firms to market farm equipment in the USSR have been largely unsuccessful in the past and are not likely to be any more successful over the next few years. The USSR produces large numbers of most types of needed farm equipment and sees no reason to use scarce hard currency on these goods. An exception might be application equipment for fertilizer and pesticides; such equipment is in short supply in the USSR. Other areas of possible interest include packaging materials of all sorts, and food processing and quality control equipment.

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The Joint Venture Issue

One area of particular interest to Soviet officials at the moment is the formation of agriculture-related joint ventures with Western firms. Indeed, the USSR may see such projects as important means of expanding trade with the United States at a time of hard currency shortages. As with countertrade deals, Moscow views joint ventures as a means of acquiring Western equipment and know-how with minimal hard currency outlays. Discussions to date with US firms have centered on agrochemicals--an area that has some potential because of the absence of US export controls on agrochemical technology. Monsanto has signed a "letter of intent" to form a joint venture to produce herbicides.

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Yet, even in the area of joint ventures, the United States

faces stiff competition. Moscow is talking with a number of West European firms about projects to produce seed, weed killers, animal feeds, and refrigeration and cold-storage equipment. Discussions are also underway with the Japanese for joint ventures in the fishing industry. For the most part, West European and Japanese firms can offer the Soviets comparable equipment and technology with the added advantage over US companies of having access to government-backed insurance and credits. Moscow might also prefer joint ventures with non-US firms since they are less vulnerable to government-imposed trade sanctions. [REDACTED]

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All Western companies are likely to find progress on establishment of joint ventures slowgoing, despite Soviet enthusiasm and optimism. While US and other Western firms are interested in projects that will be able to sell to the large Soviet domestic market, Moscow appears more interested in establishing joint ventures that will expand hard currency earnings through exports, even in the agricultural sphere. Western companies are leery of ventures that would compete with their existing product lines. Moreover, Western businessmen are already encountering numerous Soviet bureaucratic obstacles. Although Moscow issued its decree on joint ventures at the beginning of the year, many details are lacking, particularly in the areas of taxation, profit repatriation, and marketing. In addition, Western businessmen are expressing increasing concern about dealing with Soviets who are inexperienced in Western

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business and banking practices. Soviet officials who touted agricultural joint ventures at recent trade fairs and seminars held in Moscow were woefully ignorant of details when pressed, according to US Embassy reporting. Ultimately, many of the current joint venture discussions are likely to lead nowhere or dissolve into traditional sales and cooperation agreements. [REDACTED]

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